

**UNITED STATES DISTRICT COURT**  
**DISTRICT OF NEVADA**

FNBN-RESCON I LLC, a Delaware limited liability company,	)	Case No.: 2:11-cv-1867-GMN-VCF
	)	Consolidated with 2:11-cv-1868-GMN-VCF
Plaintiff,	)	
vs.	)	
	)	<b>ORDER</b>
JOHN A. RITTER, Individually; JOHN A. RITTER, as Trustee of The Mustang Trust,	)	
	)	
Defendants.	)	

## INTRODUCTION

Plaintiff FNB-RESCON I LLC (“RESCON”) filed a Complaint against John A. Ritter in his individual capacity, and as Trustee of the Mustang Trust (“Defendants”). (Compl., ECF No. 1.) Pending before the Court is Defendants’ Motion to Dismiss for Lack of Subject Matter Jurisdiction Pursuant to Fed. R. Civ. P. 12(B)(1); or Alternatively, to Dismiss for Failure to Join an Indispensable [*sic*] Party Pursuant to Fed. R. Civ. P. 19. (Mot. Dismiss, ECF No. 7.) Also before the Court is Defendants’ identical Motion to Dismiss, filed in Case No. 2:11-cv-1868-GMN-VCF. Because the cases have been consolidated, this Order will dispose of both motions. (Order Granting Mot. Consol., ECF No. 19.)

## BACKGROUND

This case arises out of an alleged default on loan payments. Ironwood Properties, LLC, (“Ironwood”) executed a Business Loan Agreement (“the Loan”) in September 2004 with First National Bank of Nevada (“FNBN”) for the amount of \$4,869,045.00. (Compl. at 2:17-20.) In exchange for the loan, Ironwood executed a Promissory Note, which was secured by a Deed of Trust encumbering certain property. (*Id.*)

1 Defendant, acting in his individual capacity and as Trustee of the Mustang Trust,  
 2 executed with FNBN a Commercial Guaranty, by which he guaranteed the Loan and any of  
 3 Ironwood's obligations under it. (*Id.*; Commercial Guaranty Ex. A attached to Compl., ECF No.  
 4 1-1.)

5 FNBN closed in July 2008, and the FDIC—appointed as receiver of the loans—came into  
 6 possession of the loans that same month. (Compl. at 3:14-15.) The FDIC created Plaintiff  
 7 RESCON in February 2009 and transferred to it “all right, title and interest . . . in and to the  
 8 Loans (including all Notes, the other Loan Documents and Related Agreements).” (Compl. at  
 9 3:16-18.) Shortly thereafter, Stearns SPV I, LLC (“Stearns”) purchased from the FDIC its  
 10 membership interest in RESCON, thus becoming the sole owner of RESCON. (*Id.*)

11 Plaintiff alleges that Ironwood defaulted on its loans. (Compl. at 4:2-3.) Plaintiff filed its  
 12 Complaint in November 2011, claiming that the Commercial Guaranty holds Defendants liable  
 13 for all payments owing under and performance of any obligation associated with the Loan. (*Id.*  
 14 at 4:15-17.) Defendants filed the pending Motion to Dismiss in January 2012. (Mot. Dismiss at  
 15 2:3.)

## 16 DISCUSSION

17 Defendants move to dismiss Plaintiff's claims, arguing that (1) this Court lacks subject  
 18 matter jurisdiction (Mot. Dismiss at 2:12-15); and (2) that the FDIC is an indispensable party to  
 19 this suit whose absence requires the Complaint's dismissal. (*Id.* at 3:3-6.)

### 20 **I. Motion to Dismiss for Lack of Jurisdiction**

21 Defendants move to dismiss the Complaint for lack of subject matter jurisdiction. (Mot.  
 22 Dismiss at 3:8-9.) Defendants make this as a factual challenge to the Court's jurisdiction,  
 23 arguing that because of the FDIC's significant interest in RESCON, “the FDIC's national  
 24 citizenship status passes to [RESCON], thereby rendering diversity jurisdiction improper.” (*Id.*)

25 ///

1           **A.     Legal Standard – 12(b)(1)**

2           Federal courts are courts of limited jurisdiction. *Owen Equip. & Erection Co. v. Kroger*,  
 3 437 U.S. 365, 374 (1978). Courts have subject matter jurisdiction over cases involving a federal  
 4 question or where diversity of citizenship exists. *Id.* Federal question jurisdiction exists when a  
 5 controversy arises under “the Constitution, laws, or treaties of the United States.” 28 U.S.C. §  
 6 1331. Diversity jurisdiction exists when there is diversity of parties and an amount in  
 7 controversy exceeding \$75,000.00. 28 U.S.C. § 1332(a).

8           In determining whether diversity jurisdiction exists over a particular case, a court must  
 9 find complete diversity of citizenship. *Strawbridge v. Curtiss*, 7 U.S. 267 (1806). Complete  
 10 diversity of citizenship exists when all plaintiffs to a case are citizens of different states from all  
 11 defendants. *Id.* If any two adversaries are citizens of the same state, diversity jurisdiction is  
 12 destroyed. *Owen*, 437 U.S. at 374. Complete diversity of citizenship must exist at the time the  
 13 complaint is filed. *Grupo DataFlux v. Atlas Global Group, L.P.*, 541 U.S. 567, 571 (2004).

14           The citizenship of limited liability companies (LLCs) is determined for jurisdictional  
 15 purposes by the citizenship of each of its members or owners. *Johnson v. Columbia Properties*  
 16 *Anchorage, LP*, 437 F.3d 894, 899 (9th Cir. 2006).

17           As a federally-chartered corporation, the FDIC is not considered a citizen of any state in  
 18 particular, but rather is a national citizen only. *RES-NV TVL, LCC v. Towne Vistas LLC*, 2:10-  
 19 cv-1084 JCM PAL, 2011 WL 5117886 (D. Nev. Oct. 27, 2011); *see Hancock Financial Corp. v.*  
 20 *Fed. Savings and Loan Ins. Corp.*, 492 F.2d 1325 (9th Cir. 1974). Courts have consistently held  
 21 that diversity jurisdiction is destroyed when the FDIC is a member of an LLC that is party to a  
 22 suit. *See Towne Vistas*, 2011 WL 5117886; *RES-NV APC, LLC v. Astoria Pearl Creek, LLC*,  
 23 2:11-cv-00381-LDG, 2011 WL 5374050 (D. Nev. Nov. 4, 2011); *Multibank 2009-1 RES-ADC*  
 24 *Venture LLC v. CRM Ventures, LLC*, Case No. 10-cv-02001-PAB-CBS (D. Colo. 2010).

25           Defendants may move to dismiss a complaint that lacks subject matter jurisdiction. Fed.

1 R. Civ. P. 12(b)(1). Although Defendants are the moving party, Plaintiff has the burden of  
2 proving that subject matter jurisdiction exists. *McCauley v. Ford Motor Co.*, 264 F.3d 952, 957  
3 (9th Cir. 2001) (citing *McNutt v. General Motors Acceptance Corp.*, 298 U.S. 178, 189 (1936)).  
4 District courts must dismiss a complaint that, “considered in its entirety, on its face fails to  
5 allege facts sufficient to establish subject matter jurisdiction.” *In re Dynamic Random Access*  
6 *Memory (DRAM) Antitrust Litigation*, 546 F.3d 981, 984–85 (9th Cir. 2008).

7 A 12(b)(1) motion can be made in one of two ways: facial or factual challenges. In a  
8 facial challenge, defendants attack the sufficiency of the pleadings supporting subject matter  
9 jurisdiction. *Frasure v. United States*, 256 F.Supp.2d 1180, 1184 (D. Nev. 2003). In this type of  
10 12(b)(1) motion, district courts must accept all allegations as true. *Wolfe v. Strankman*, 392 F.3d  
11 358, 362 (9th Cir. 2004) (citing *Bollard v. Cal. Province of the Soc'y of Jesus*, 196 F.3d 940,  
12 944–45 (9th Cir. 1999)). On the other hand, in a factual attack or “speaking motion,” defendants  
13 challenge the actual existence of subject matter jurisdiction. *Frasure*, 256 F. Supp. 2d at 1184.  
14 In this type of motion, courts should treat the pleadings as evidence, courts should not presume  
15 the truthfulness of the plaintiff’s allegations, and the plaintiff has the burden of proving that  
16 jurisdiction exists. *Id.* In opposing a factual challenge, a plaintiff meets its burden by presenting  
17 evidence outside of the allegations that support a finding of jurisdiction. *Trentacosta v. Frontier*  
18 *Pac. Aircraft Indus., Inc.*, 813 F.2d 1553, 1559 (9th Cir. 1987). This requirement is “the same  
19 as that required under Rule 56(e) that the nonmoving party to a motion for summary judgment  
20 must set forth specific facts, beyond his pleadings, to show that a genuine issue of material fact  
21 exists.” *Id.*

22 When confronted with a factual challenge, courts are free to weigh the evidence and  
23 resolve factual disputes concerning subject matter jurisdiction. *Id.*; see *Augustine v. United*  
24 *States*, 704 F.2d 1074, 1077 (9th Cir.1983) (“the district court is ordinarily free to hear evidence  
25 regarding jurisdiction and to rule on that issue prior to trial, resolving factual disputes where

1 necessary”). Furthermore, it is within the court’s discretion whether to hold an evidentiary  
2 hearing on factual disputes. *See Gibbs v. Buck*, 307 U.S. 66, 71-72 (1939) (“[a]s there is no  
3 statutory direction for procedure upon an issue of jurisdiction, the mode of its determination is  
4 left to the trial court”).

## 5 **B. Analysis**

6 Defendants claim that, given the FDIC’s large interest in the loans at issue and the great  
7 amount of control it has over RESCON, the FDIC is actually the “real party” to this suit. (Mot.  
8 Dismiss at 8:6-7.) As the real party in interest, the FDIC would be added as a party to the suit,  
9 which would destroy diversity jurisdiction. Intertwined in Defendants’ arguments that the FDIC  
10 is a real party to the suit is his argument that the assignment of RESCON to Stearns was  
11 improperly or collusively made for the purpose of creating federal subject matter jurisdiction.  
12 Thus, the Court will first address these allegations and arguments and then turn to whether or  
13 not the FDIC’s substantial interest in RESCON makes it a real party in interest to this suit.

### 14 **1. Improper or Collusive Assignment**

15 “A district court shall not have jurisdiction of a civil action in which any party, by  
16 assignment or otherwise, has been improperly or collusively made or joined to invoke the  
17 jurisdiction of such court.” 28 U.S.C. §1359. Defendants allege that the FDIC violated 28  
18 U.S.C. §1359 by improperly selling its interest in RESCON to Stearns so as to create diversity  
19 jurisdiction. (*Id.* at 8:8-10.) In particular, Defendants argue that the FDIC’s substantial control  
20 over RESCON as evidenced in the Participation Agreement proves that the FDIC’s transfer of  
21 RESCON to Stearns was a sham transaction done merely to obtain jurisdiction in federal court.  
22 (*Id.* at 2:22-26.)

23 The standard for determining whether a party improperly created federal subject matter  
24 jurisdiction “by assignment or otherwise” is an unsettled area of law. However, the Supreme  
25 Court has laid out principles that have guided other federal courts considering this issue. *See*

1 *Kramer v. Caribbean Mills, Inc.*, 394 U.S. 823 (1969).

2 *Kramer* involved a dispute between Panamanian and Haitian corporations. *Id.* at 824.  
3 The Panamanian corporation sought federal jurisdiction by assigning its claim to a Texas  
4 lawyer, Kramer, in consideration for which Kramer agreed to pay \$1. *Id.* On the same day,  
5 Kramer agreed to pay the Panamanian corporation 95% of any net recovery on the assigned  
6 cause of action. *Id.* Kramer eventually brought suit in federal court, seeking \$165,000 from the  
7 Haitian corporation. *Id.* Although the district court held in Kramer's favor, the Court of Appeals  
8 remanded the case with directions to dismiss for want of jurisdiction. *Id.*

9 After discussing the legislative history of the newly amended § 1359, the Supreme Court  
10 affirmed the Court of Appeals' finding that Kramer's claim should be dismissed because its  
11 assignment was made improperly. *Id.* at 830. In support of its holding, the Court noted that  
12 (1) Kramer agreed on the same day as the assignment to pay to the Panamanian corporation 95%  
13 of any recovery; (2) Kramer had no previous connection to the case before the transfer; and  
14 (3) Kramer admitted that the assignment was "in substantial part motivated by a desire by  
15 (Panama's) counsel to make diversity jurisdiction available." *Id.* at 827-28. Furthermore, the  
16 Court explained, to allow Kramer's assignment to obtain subject matter jurisdiction would be to  
17 open the backdoor to federal court for a tidal wave of last-minute state claims. *Id.*

18 The Supreme Court has not reconsidered the applicability of § 1359 since its decision in  
19 *Kramer*, but the Ninth Circuit recently relied on the principles of *Kramer* when it held that a  
20 Taiwanese corporation did not destroy diversity jurisdiction by assigning its claim against a  
21 California corporation to a California collection agency. *Attorneys Trust v. Videotape Computer*  
22 *Products, Inc.*, 93 F.3d 593, 600 (1996). In *Attorneys Trust*, the California collection agency  
23 ("Attorneys Trust") sued the California corporation ("Videotape"), who cross-claimed against  
24 the Taiwanese corporation ("CMC"). After the district court ruled against CMC and Attorneys  
25 Trust, they appealed claiming that the court lacked jurisdiction because CMC's transfer to

1 Attorneys Trust was improper under § 1359. *Id.* at 594. The Ninth Circuit upheld the district  
 2 court's ruling, finding that diversity jurisdiction was not destroyed by CMC's transfer in part  
 3 because CMC did not intend to destroy jurisdiction at the time Attorneys Trust filed its  
 4 complaint. *Id.* at 600.

5 Although *Attorneys Trust* concerned solely the *destruction* of jurisdiction by improper  
 6 assignment, the Ninth Circuit also surveyed and summarized cases dealing with assignment that  
 7 *creates* federal jurisdiction. *Attorneys Trust*, 93 F.3d at 595-97.<sup>1</sup> The court enumerated several  
 8 factors it found applicable in determining whether § 1359 applies to a particular assignment or  
 9 transaction that creates jurisdiction:

10 [1] were there good business reasons for the assignment; [2] did the  
 11 assignee have a prior interest in the item or was the assignment timed to  
 12 coincide with commencement of litigation; [3] was any consideration  
 13 given by the assignee; was the assignment partial or complete; and  
 14 [4] was there an admission that the motive was to create jurisdiction.

15 *Id.* at 598. Other courts have also found important whether the assignee is funding the litigation.  
 16 *See, e.g., Reinhart Oil & Gas, Inc. v. Excel Directional Technologies, LLC*, 463 F. Supp. 2d  
 17 1240, 1245 (D. Colo. 2006); *Canton Indus. Corp. v. Mi-Jack Prods., Inc.*, 944 F.Supp. 853, 856-  
 18 57 (D. Utah 1996).

19 These factors are not criteria that must all necessarily be present, but rather they are to be  
 20 considered by a court to determine whether, under a totality of the circumstances, an assignment  
 21 or transfer is improperly or collusively made. *Reinhart*, 463 F. Supp. at 1245; *see Smith v.*  
 22 *Sperling*, 354 U.S. 91, 97 (1957) (determining whether an assignment is improper is "a practical  
 23 not a mechanical determination and is resolved by the pleadings and the nature of the dispute").

24 ///

25 <sup>1</sup> The Fifth Circuit noted that "[b]ecause of their similarity, assignments which destroy diversity and assignments which create diversity should be analyzed under the same standard; that is, the issue of whether the assignment was improperly or collusively made is to be resolved as a simple question of fact." *Grassi v. Ciba-Geigy, Ltd.*, 894 F.2d 181, 186 (5th Cir.1990).

1                   **a.       Consideration**

2           Typically, courts do not inquire into the validity of consideration. *Wilson v. Bristol W.*  
 3 *Ins. Group*, 2:09-cv-00006-KJD-GWF, 2009 WL 3105602 (D. Nev. Sept. 21, 2009); *see Oh v.*  
 4 *Wilson*, 112 Nev. 38, 41-42, 910 P.2d 276, 278-79 (Nev. 1996) (“inadequacy of consideration  
 5 standing alone does not justify rescission of a contract or release”); RESTATEMENT (SECOND) OF  
 6 CONTRACTS, § 79 (1979). However, courts have used valid yet nominal consideration as  
 7 evidence that an assignment was made in order to obtain subject matter jurisdiction improperly.  
 8 *See Reinhart*, 463 F. Supp. at 1245; *Kramer*, 394 U.S. at 824 (finding collusion in violation of §  
 9 1359 when diversity creating assignment was made for consideration of \$1); *Dweck v. Japan*  
 10 *CBM Corp.*, 877 F.2d 790, 793 (9th Cir. 1989) (finding collusion in part based on a lack of  
 11 consideration for appointment). Relying on *Kramer*, other courts have held that nominal or  
 12 sham consideration for an assignment in order to obtain jurisdiction is strong evidence that the  
 13 assignment was made improperly or collusively. *See Pasquotank Action Council, Inc. v. City of*  
 14 *Virginia Beach*, 909 F. Supp. 376 (E.D. Va. 1995) (finding that the transfer of a small parcel of  
 15 land for no consideration in part revealed the transferor’s intention to improperly obtain federal  
 16 jurisdiction); *Harrell & Sumner Contracting Co., Inc. v. Peabody Petersen Co.*, 546 F.2d 1227  
 17 (1977) (“lack of economic substance to the assignment along with the district court’s finding  
 18 that the reasons for the assignment were legal and tactical was tantamount to a finding that the  
 19 assignment was ‘improper or collusive’”).

20           In this case, Plaintiff alleges that Stearns paid valid consideration for the FDIC’s interest  
 21 in RESCON. (Response 3:6-7, ECF No. 13.) According to Plaintiff, Stearns purchased “all of  
 22 [the FDIC]’s right, title and interest in and to [RESCON] for a purchase price of \$32,208,800.00.”  
 23 (Resp. at n.6.) This amount is unlike the nominal consideration in *Kramer* or the free-and-clear  
 24 transfer in *Pasquotank*. The significant amount of consideration paid by Stearns supports the  
 25 presumption that the assignment of RESCON was valid and proper.

1                                   **b.       Motive and Valid Business Reasons**

2           In proving that a transfer was not improperly or collusively made, a plaintiff has the  
3   burden of showing that the transfer was made for other valid business reasons besides creation  
4   of jurisdiction. *Reinhart*, 463 F. Supp. at 1245. The plaintiff may generally meet his or her  
5   burden by offering “evidence that the transfer was made for a legitimate business purpose  
6   unconnected with the creation of diversity jurisdiction.” *Prudential Oil Corp. v. Phillips*  
7   *Petroleum Co.*, 546 F.2d 469, 476 (2d Cir. 1976); *W. Farm Credit Bank v. Hamakua Sugar Co.,*  
8   *Inc.*, 841 F. Supp. 976 (D. Haw. 1994). When there is a legitimate business reason for the  
9   transfer, courts generally find that transfer is proper even if it was partially motivated by a desire  
10   to create federal jurisdiction. *Hamakua*, 841 F. Supp. at 976; *see Yokeno v. Mafnas*, 973 F.2d  
11   803, 811 (9th Cir. 1992) (“the existence of such dual motives would not render the assignment  
12   ineffective for diversity purposes”); *U.S.I. Properties Corp. v. M.D. Const. Co., Inc.*, 860 F.2d 1,  
13   6 (1st Cir. 1988) (“parties may legitimately try to obtain the jurisdiction of federal courts, . . .  
14   [but] using a strawman, or sham transactions, *solely* for the creation of otherwise unobtainable  
15   jurisdiction, is clearly forbidden”) (emphasis added).

16           The Court finds the \$32,208,800.00 paid by Stearns to the FDIC in consideration for the  
17   assignment of RESCON is in itself a valid business reason for the assignment. Plaintiff’s  
18   contention that the assignment is not made collusively is further supported by the fact that  
19   Stearns was chosen as the assignee of RESCON through a sealed bidding process. (Resp. at n.6.;  
20   *see Limited Liability Company Interest Sale and Assignment Agreement*.) If the FDIC’s sole  
21   motivation is to obtain diversity jurisdiction by using a straw plaintiff and a collusive  
22   assignment, a sealed bidding process—where typically the assignee is unknown until after the  
23   bidding is completed—is an unusual and risky way to accomplish those ends.

24           In determining whether the assignor’s motive was proper, courts generally find helpful  
25   the presence of valid business reasons for an assignment. *See Reinhart*, 463 F. Supp. 2d at 1258.

1 Courts disagree about the amount of weight that a transferor's motive should be given when  
2 considering §1359 issues. *Attorneys Trust*, 93 F.3d at 596; *see Haskin v. Corporacion Insular de*  
3 *Seguros*, 666 F. Supp. 349, 353 (D. P.R. 1987). In general, however, courts tend to view motive  
4 as a significant but not controlling factor. *Haskin*, 666 F. Supp. at 354. Courts are especially  
5 sensitive to explicit statements revealing an improper motive. *Kramer*, 394 U.S. at 829.  
6 Typically, whether a transferor's motive was proper is determined by objective factors, most of  
7 which overlap with those relevant to determining whether a transfer is not barred by § 1359.  
8 Perhaps the most important factor in this determination is whether "the assignee has some  
9 independent, preexisting legitimate interest in the causes of action assigned to him." *Id.* By  
10 looking to (1) whether the assignee had an interest in the claim prior to assignment and (2) how  
11 much time has passed between assignment and litigation, a court can get a better picture of an  
12 assignor's motive.

13 In the present case, it is not obvious from either party's filings whether Stearns had an  
14 interest in the claims prior to RESCON's assignment. However, the fact that the FDIC assigned  
15 its interest to Stearns only a few days after forming and assigning to RESCON the management  
16 and service of the loans is nearly conclusive evidence that Stearns did not have an interest before  
17 that assignment. While the Court recognizes that this may suggest an improper motive behind  
18 the FDIC's assignment, it is tempered by the length of time between assignment and  
19 commencement of litigation. Stearns purchased RESCON in February 2009, two and a half  
20 years before RESCON filed its complaint. (Compl. at 3:19-20.) This is unlike the cases where  
21 courts found assignments improper when they were made shortly before or to coincide with the  
22 filing of a complaint. *See Kramer*, 394 U.S. at 824 (noting that Kramer filed his complaint  
23 "soon" after the Panamanian corporation's assignment); *Nike, Inc. v. Comercial Iberica de*  
24 *Exclusivas Deportivas, S.A.*, 20 F.3d 987 (9th Cir. 1994) (an assignment suggested collusion  
25 when made three days prior to filing of suit).

1 The consideration, the time between assignment and litigation, and the circumstances  
2 surrounding assignment together suggest that the assignment, although possibly motivated by  
3 both business judgment and the opportunity to secure diversity jurisdiction, was not improperly  
4 or collusively made as § 1359 defines those terms.

5 **c. Partial or Complete Transfer**

6 In general, assignments that are complete and where the assignor retains no interest in the  
7 litigation are found not to be improperly or collusively made. *See Attorneys Trust*, 93 F.3d at  
8 596; *R. C. Hedreen Co. v. Crow Tribal Housing Auth.*, 521 F. Supp. 599 (D. Mont. 1981) (an  
9 “assignment is valid on its face” when the “assignor in this case has relinquished all of its  
10 interest in the contracts at issue by virtue of its assignment”). On the other hand, partial or  
11 incomplete assignments allowing the assignor to maintain a substantial interest in the litigation  
12 are usually presumed to violate § 1359. *See Kramer*, 394 U.S. at 824 (finding jurisdiction  
13 improper when the assignment in question was accompanied by an agreement giving assignor  
14 95% interest in any recovery from litigation); *Reinhart*, 463, F. Supp. at 1245.

15 In addition to whether assignment is partial or complete, courts also consider the  
16 relationship between assignor and assignee. *Attorneys Trust*, 93 F.3d at 597. Courts presume  
17 that assignments are collusive if made between closely affiliated parties. *See, e.g., Yokeno v.*  
18 *Mafnas*, 973 F.2d 803, 809 (9th Cir. 1992) (“[a]ssignments between parent companies and  
19 subsidiaries, and assignments by corporations to their officers or directors” are presumptively  
20 invalid); *McCulloch v. Velez*, 364 F.3d 1, 3 (1st Cir. 2004) (finding that an assignment between  
21 a corporation and a shareholder triggers a presumption of collusion); *Syms v. Castleton Indus.,*  
22 *Inc.*, 470 F.2d 1078, 1079 (5th Cir. 1972) (assignments between trustees are presumptively  
23 collusive).

24 In the present case, Stearns purchased from the FDIC “all of [its] right, title and interest  
25 in and to” RESCON. (Compl. at 8:16-18.) *See Limited Liability Company Interest Sale and*

Assignment Agreement.<sup>2</sup> On its face, the agreement assigning Stearns all of the FDIC's rights to RESCON is valid and complete. However, a closer look at the Participation Agreement entered into between the FDIC and RESCON shows that the FDIC maintains a substantial financial interest in the loans. Thus, because of the continued interest the FDIC has in RESCON, the Court cannot find conclusively that the assignment was complete. However, there is no corporate relation between the FDIC and Stearns that creates a presumption of collusion. Similarly, this is not a transfer that was "merely for collection" since RESCON receives a share of the proceeds of the Loans beyond what it receives for the expenses it incurs through collection. *See Attorneys Trust*, 93 F.3d at 599.

Although the FDIC's significant interest in the Loans makes its transfer of RESCON to Stearns partial and not complete, the Court relies on the substantial consideration, the length of time between assignment and litigation, the transfer of rights to legal claims, and the valid business reasons supporting the transfer to find that Plaintiff has met its burden by presenting evidence that FDIC's assignment of its membership interest in RESCON to Stearns was not improperly or collusively made per § 1359.

## 2. Real Party in Interest

"[A] federal court must disregard nominal or formal parties and rest jurisdiction only upon the citizenship of real parties to the controversy." *Navarro Sav. Ass'n v. Lee*, 446 U.S. 458, 461 (1980); Fed. R. Civ. P. 17. The purpose of the Rule is "to enable the defendant to avail himself of evidence and defenses that the defendant has against the real party in interest, and to assure him finality of the judgment, and that he will be protected against another suit brought by the real party in interest on the same matter." *Celanese Corp. of Am. v. John Clark Indus.*, 214 F.2d 551, 556 (5th Cir. 1954).

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<sup>2</sup> In its Response, Plaintiff includes a reference to this agreement, which documents the transfer of RESCON from the FDIC to Stearns. (Resp. at n.6.) A copy of this agreement can be found at: [http://www.fdic.gov/buying/historical/structured/FNBN-RESCON\\_interest\\_sale\\_assignment\\_agreement.pdf](http://www.fdic.gov/buying/historical/structured/FNBN-RESCON_interest_sale_assignment_agreement.pdf).

Defendants claim that the FDIC's substantial interest in RESCON and its loans is conclusive proof that it is the real party in interest, which is evidence that the FDIC should be added as a party to the suit. (Mot. Dismiss at 8:6-7.) Either way, Defendants argue, the FDIC's real party status would destroy jurisdiction. *Id.* Defendants emphasize the fact that "the Participation Agreement entitles the FDIC to receive up to 80% of recovered loan proceeds," in addition to requiring RESCON to obtain the FDIC's written approval before making a number of business moves. (Reply 3:19-20, ECF No. 14.)

In Nevada, a real party in interest is one that (1) has a legal right to bring suit on a claim and (2) has a substantial interest in litigation. *See Painter v. Anderson*, 96 Nev. 941, 943, 620 P.2d 1254, 1256 (1980).

In general, determining whether a party has a substantial interest in litigation is an endeavor that requires a court to look at the totality of the circumstances. *Attorneys Trust*, 93 F.3d at 597. The Ninth Circuit asks these questions when determining whether a party has a substantial interest in litigation:

Does the assignee have something to lose because he had preexisting rights; or has the assignee paid for the assignment; or has he acquired only a relatively small part of the underlying interest, a part that could be expected to relate to expenses of collection alone; or, finally, is the assignment merely one for collection? In fine, is the assignee truly a real party in interest or just a strawman for all practical purposes?

*Id.*

In this case, it is clear from the pleadings that RESCON has the legal right to bring a claim for recovery of the amount in default. The Participation Agreement states, "[u]pon the occurrence of an event of default under any of the Loan Documents... [RESCON] shall cause to be determined the response to such default and course of action with respect to such default, including... (d) the institution of proceedings against any Guarantor." (Participation and Servicing Agreement Ex. A attached to Decl. of Michael Hogue, § 6.01.) The Court finds that

1 RESCON satisfied its burden of proving that it has a legal right to bring this action.

2 Pursuant to the Participation Agreement, the FDIC retains either 60% or 80% of the  
3 proceeds of the loans assigned to RESCON, depending on whether one of two specified  
4 conditions was met. (Participation and Servicing Agreement Ex. A attached to Decl. of Michael  
5 Hogue, § 2.02.) However, before the FDIC receives its percentage share of proceeds, the  
6 Participation Agreement specifies certain expenses that RESCON incurs in servicing and  
7 managing the loans. *Id.* at § 3.03. For example, the Participation Agreement specifies that  
8 before the FDIC is paid its share, any proceeds should be dispersed to cover “Working Capital  
9 Advances,” or the amount to cover RESCON’s operational expenses; a “Management Fee;” the  
10 fees and expenses of the Document Custodian, or the party in charge of securing the Notes and  
11 other related documents; the reimbursement of RESCON for any outstanding Servicing Fees;  
12 and the costs of funding a litigation reserve. *Id.* In sum, the Participation Agreement  
13 contemplates that RESCON’s operating and servicing expenses are covered before the FDIC  
14 receives any proceeds from its participation. This ensures that RESCON was formed not as a  
15 shell company that the FDIC could effectively loot, but instead as a separate entity to service  
16 and maintain the loans the FDIC received when FNBN failed. This finding is further supported  
17 by the significant consideration Stearns paid the FDIC for its membership interest in RESCON,  
18 a transaction that would be irrational if RESCON had no real interest in recovering on the  
19 defaulted loans.

20 Based on these facts, the Court finds that Plaintiff has a substantial interest in the  
21 litigation apart from its assignment to Stearns. Since RESCON has the legal right to enforce this  
22 claim and a substantial interest in the outcome of the case, the Court finds that it is a real party  
23 in interest and not the FDIC. Thus, the Court finds that Plaintiff has met its burden of proving  
24 the existence of diversity jurisdiction.

25 / / /

## II. Motion to Dismiss for Failure to Join Indispensable Party

Defendant also seeks to dismiss Plaintiff's claim according to Federal Rule of Civil Procedure 12(b)(7), which allows a court to dismiss a complaint that fails to join a necessary and indispensable party. Fed. R. Civ. P. 12(b)(7). In particular, Defendant argues that RESCON's complaint should be dismissed because the FDIC is a necessary party that cannot be joined. (Compl. at 8:17-19.)

### A. Legal Standard – 12(b)(7)

A defendant may move to dismiss a complaint for failure to join a necessary party. Fed. R. Civ. P. 12(b)(7). Under Federal Rule of Civil Procedure 19(a), necessary and indispensable parties to a suit must be joined. Fed. R. Civ. P. 19(a). Courts generally use a three-step analysis when determining if a party need be joined to an action: (1) whether the party is "necessary"; (2) if the party is necessary, whether the party's joinder is "feasible"; and (3) if joinder is not feasible, "whether the case can proceed without the absent party or whether the absent party is an 'indispensable' party such that the court must dismiss the action." *Wright v. Incline Village Gen. Imp. Dist.*, 597 F. Supp. 2d 1191, 1204 (D. Nev. 2009). If a court finds that a party is not necessary to the suit, then it should not proceed to analyze whether joinder is feasible or the party indispensable. *See In re County of Orange*, 262 F.3d 1014, 1022 (9th Cir. 2001).

### B. Analysis

Defendant argues that the FDIC is a necessary party because the Participation Agreement gives the FDIC "significant control over and a financial interest in the Loan at issue in this dispute." (Compl. at 11:3-4.) In a similar argument, Defendant claims that the FDIC must necessarily be joined so as to avoid future inconsistent judgments should the FDIC decide to bring suit against him. (*Id.* at 11:13-14.)

Absent parties are necessary to a suit if (1) the court cannot grant complete relief among the existing named parties or (2) the absent parties claim an interest in the litigation. *Wright*, 597

1 F. Supp. 2d at 1205. The “complete relief” factor concerns whether total relief is possible as  
2 between the named parties, not as between absent and named parties. *Id.* Absent parties that  
3 claim an interest in the litigation are necessary to the suit only if “disposition of the action  
4 without the parties would [] impair or impede their ability to protect their interest or [] leave an  
5 existing party subject to a substantial risk of incurring double, multiple, or otherwise  
6 inconsistent obligations because of the claimed interest.” *Id.*

7 The Court can grant complete relief because the Participation Agreement gives RESCON  
8 complete control over enforcement of the Loans. By RESCON’s admission, the FDIC  
9 maintains a substantial interest in the litigation given its Participation Interest. (Participation and  
10 Servicing Agreement Ex. A attached to Decl. of Michael Hogue, ECF No. 7-1.) However, the  
11 FDIC’s ability to protect this interest would not be impaired or impeded because, while the  
12 Participation Agreement removes the FDIC’s ability to bring suit against the Guarantor for  
13 default, it does represent an enforceable contract as between the FDIC and RESCON. *See*  
14 *Franklin v. Commissioners of Internal Revenue*, 683 F.2d 125, 128 (5th Cir. 1982) (finding that  
15 terms of participation agreements govern participation relationships). The FDIC can rely on that  
16 agreement to protect its interest in proceeds from the Loan. Thus, disposition of this suit will  
17 not impair or impede the FDIC’s ability to protect its interest in the litigation.

18 Similarly, disposition of this suit without joining the FDIC will not leave the Defendant  
19 vulnerable to multiple judgments. Although Defendant argues that “there is nothing in the  
20 Participation Agreement that precludes the FDIC from pursuing claims separate from  
21 [RESCON]’s present claim,” it is clear from the Participation Agreement that only RESCON  
22 can bring a claim relating to the Loans or loan documents. (Reply 8:4-5.) In particular, the  
23 Participation Agreement states, “[u]pon the occurrence of an event of default under any of the  
24 Loan Documents... [RESCON] shall cause to be determined the response to such default and  
25 course of action with respect to such default, including... (d) the institution of proceedings

1 against any Guarantor.” (Participation and Servicing Agreement Ex. A attached to Decl. of  
2 Michael Hogue, §6.01.)

3 The Court finds that, despite the language purporting to give the FDIC an “undivided  
4 ownership interest” in the Loans and other documents, the Participation Agreement clearly  
5 allows only RESCON to bring a suit for default. *Id.*; *see also In re AutoStyle Plastics, Inc.*, 269  
6 F.3d 726, 736 (6th Cir. 2001) (“[t]he participant’s only contractual relationship is with the  
7 lender; the participant has no ability to seek legal recourse against the borrower”). Furthermore,  
8 the Participation Agreement makes clear that the FDIC may look only to RESCON for payment,  
9 not to the borrower or guarantors. *Id.*; *see Alan W. Armstrong, The Developing Law of*  
10 *Participation Agreements*, 23 Bus. Law. 689 (1968) (“the participant’s partial and undivided  
11 interest in the borrower’s note and underlying collateral represents its security for a loan it really  
12 makes to the lead . . . [f]or this reason, the participant can look only to the lead for payment”).  
13 This is clear from the language in other sections of the Participation Agreement.<sup>3</sup> Thus,  
14 Defendant is not in jeopardy of receiving “double, multiple, or otherwise inconsistent  
15 obligations because of the claimed interest.” *Wright*, 597 F. Supp. 2d at 1205.

16 Therefore, because disposition of this suit would not impair the FDIC’s ability to protect  
17 its interest in the Loans and because disposition would not subject Defendant to multiple  
18 judgments, the Court finds that the FDIC is not a necessary party to this suit. For these reasons,  
19 the Court will not inquire as to whether joinder is feasible or the party indispensable. *See In re*  
20 *County of Orange*, 262 F.3d at 1018. Thus, the Court finds that RESCON did not fail to join an  
21 indispensable party.

22 ///

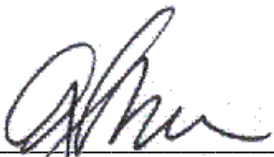
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23  
24 <sup>3</sup> For example, § 5.09 of the Participation Agreement gives RESCON “full power and authority, acting alone or through the  
25 Servicer and any Subservicers, to cause to be done any and all things in connection with the servicing and administration of  
the Loans that [RESCON] may deem necessary or desirable, and cause to be made all servicing decisions in its reasonable  
discretion, including the following: . . . (s) take any Enforcement Action,” which refers to, among other things,  
“commencement of any litigation or proceeding.”

**CONCLUSION**

**IT IS HEREBY ORDERED** that Defendants' Motions to Dismiss for Lack of Subject Matter Jurisdiction Pursuant to Fed. R. Civ. P. 12(B)(1); or Alternatively, to Dismiss for Failure to Join an Indispensible [*sic*] Party Pursuant to Fed. R. Civ. P. 19 (ECF No. 7 in this action, and ECF No. 7 in case no. 2:11-cv-1868-GMN-VCF) are **DENIED**.

DATED this 6th day of September, 2012.

  
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Gloria M. Navarro  
United States District Judge